

China's dual global supply chain

US economist David Hale and his wife Lyric Hughes Hale, publishers of www.chinaonline.com in a foreign-affairs article provide some startling numbers on China's influence on Taiwan's economy during the past decade and how China's two-way participation in new global supply chains will influence the world's economies in coming decades.

The Hales claim that as much as 10% of Taiwan's active population is now employed on the mainland. Taiwan's total population of 23m, has a labour force of 10m. "Analysts estimate there are 40,000 Taiwanese firms operating on the mainland, formally employing 500,000 Taiwanese and informally another 400,000," they write, and 4,000 Taiwanese are currently studying in Chinese graduate schools.

The Hales show that the Taiwanese government has authorised increasing amounts of foreign investment in China. In 1997 \$11bn (Bt449bn); in 2001 \$19bn, and in 2002 it was \$32bn.

According to the Hales, 56% of Taiwan's large electronics companies, 63% of medium-sized firms and 73% of small companies have mainland manufacturing operations. "China's largest exporter in 2002 was Honhai Electronics, a Taiwanese manufacturer of computer parts - it exported \$4.38bn".

The implication of these investments on Taiwanese industry is huge. In 1999 Taiwan's electronics companies were the world's top producers of various products: keyboards 62%, motherboards 61%, monitors 54%, laptop computers 53%, personal desktop computers 25%. Taiwanese companies now produce 25% of desktop PCs in China.

China's increasing dual role in global supply chains is having major trade implications. An economist at Export Development Canada is quoted: "China has become a manufacturing hub for the rest of the world in low-end labour-intensive goods. The rest of the world is becoming a manufacturing hub for China in

high-end capital-intensive goods."

Total exports from the rest of Asia to China grew from \$72.1bn in 1995 to \$160bn in 2002. In that time, China's imports for domestic consumption almost doubled - \$42bn to \$78.7bn. But its imports for reprocessing nearly tripled - growing from \$29.8bn to \$81.9bn. "Imports for reprocessing now account for 51% of China's imports from Asia."

As a result of China's new role in the global supply chain, the authors said China was now running trade deficits with eastern Asia and trade surpluses with North America and Europe. China has the following trade deficits: Taiwan \$31bn, South Korea \$13.1bn, Asean \$7.6bn, Japan \$5bn and Australia \$1.3bn.

Another revelation is that US corporates such as GM, Motorola and Procter & Gamble are earning "healthy profits" in China. "The US corporate sector has \$26bn worth of sales in China, compared to \$20bn worth of exports."

Agilent

"Orders and revenue were at their highest levels since early 2001" according to Agilent Technologies Inc chair, president and CEO. These stood at \$1.89bn for 2Q ended April, 2004, 24% up on a year ago. Quarter revenues were \$1.83bn, 25% ahead of last year. 2Q net earnings were \$104m (21c/ diluted share) compared to a loss of \$146m, (-31c/share) in 2Q last year. Excluding \$15m net restructuring and amortization charges, Agilent reports 2Q operating net income of \$119m or 24c /share, versus a loss on a comparable basis of \$72m or 15c/share a year ago.

For the third consecutive quarter, Agilent generated positive free cash flow from operations ending the quarter with \$1.84bn of cash and equivalents, up \$164m from the prior quarter. Inventory days-on-hand improved by 21 a year ago to 94. Receivables days sales outstanding improved by 3 a year ago to 54. Capital spending of \$35m was \$32m below the level of depreciation.

Bede raises £700,000

X-ray metrology equipment supplier, Bede plc raised £714,000 through a cash placing of 2,800,000 'O' shares of 2p each, with institutional investors at a placing price of 25.5p. The new shares, 4.99% of current issued share capital, have been placed with institutional investors by Evolution Beeson Gregory. This is to provide additional working capital for the Group.

Bede claims continuing strong interest for its tools with a recent lead European manufacturer order for BedeScan and a purchase order of BedeMetrix-F

for delivery to multiple global sites in '04. Orders for five such tools were included in the Q1 fiscal trading update April '04.

The total value of year to date sales combined with order backlog at 9 June 2004 was £5m with 1Q results due at end June. Results for FY ended December 2003 show sales for the year at £4.1m, down on £5.9m in 2002. Pretax loss was £3.9m pre-exceptionals (2002 £3.6m) and pretax loss (with £4.1m exceptionals) was up on 2002's £3.8m. However order backlog at April 2004 was £3.9m.

Base stations

According to a new IDC study, *Worldwide Base Station Semiconductor 2004-2008 Forecast and Analysis* shows this is expected to reach \$1.9bn in 2004 and grow to \$2.4bn by 2008.

"Stronger OEM-backed standardisation, such as OBSAI and CPRI, with migration to off-the-shelf chip approaches will be major trends in this segment," said Sean Lavey, IDC programme manager. "We believe further cost reductions delivered at chip level for key 3G baseband, transceiver, and

power amplifier subsystems will help jumpstart expansion and upgrades to data-enabled cellular networks."

Continued adoption of 2.5G and 3G data services in first-wave regions, with demands for basic voice services in otherworld areas, will fuel spending for base station gear. In particular, the 3G segment, which includes WCDMA, CDMA2000 and upcoming TD-SCDMA air interface standards, will be the major driver to post a CAGR of 28% by 2008.